

# China's WTO Accession: American Interests, Values and Strategy

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Mr. Chairman, Congressman Rangel, Members of the Committee, thank you for this opportunity to testify on one of the most important American trade policy goals in many years.

## CHINA'S ONE-WAY TRADE CONCESSIONS AND BROADER STRATEGIC GOALS

Last November, after years of negotiation, we reached a bilateral agreement with China on WTO accession. It secures broad-ranging, comprehensive, one-way trade concessions on China's part, granting the United States substantially greater market access across the spectrum of industrial goods, services and agriculture. This agreement strengthens our guarantees of fair trade. And it gives us far greater ability to enforce Chinese trade commitments. By contrast, we agree only to maintain the market access policies we already apply to China, and have for over twenty years, by making China's current Normal Trade Relations status permanent.

China's WTO accession is a clear economic win for the United States. Together with permanent NTR, it will open the world's largest nation to our goods, farm products and services in a way we have not seen in the modern era. Without permanent NTR, our competitors in Asia, Latin America, Canada and Europe will reap these benefits but American farmers and businesses may well be left behind. That is the fundamental choice before us as we debate permanent NTR.

But China's WTO accession also has deeper implications. Our relationship with China, given China's size and economic weight, affects all of America's foreign policy and security goals in Asia: from broad strategic interests to regional issues in Korea, Southeast Asia and elsewhere; human rights and religious freedom; weapons proliferation; environmental issues; labor rights; crime and narcotics trafficking; and many others. We have serious differences with China in a number of these issues, and have found areas of common ground as well. And we have a fundamental responsibility to develop a stable, mutually beneficial relationship in which we act upon areas of shared benefit and mutual interest. WTO accession will allow us to do so, as it complements and supports long-standing American goals in China policy:

- By helping to open and liberalize China's economy, WTO accession will create new economic freedoms for Chinese citizens and promote the rule of law in many fields now dominated by state power and control. A number of leading Chinese and Hong Kong advocates of democracy thus endorse WTO membership not only for its economic value, but as a foundation for broader future reforms.

- By integrating China more firmly into the Pacific and world economies, WTO accession will give China a greater stake in regional stability and prosperity. It will thus, together with our military presence in the Asia-Pacific and our regional alliances, be a factor in favor of long-term regional peace.

## AMERICA AND THE TRADING SYSTEM

Let me begin my detailed review by putting the WTO accession in its historic context.

The World Trade Organization China now seeks to join has its roots in the General Agreement on Trade and Tariffs, or GATT. Its creation in 1948 reflected the personal experience of President Truman and his European counterparts in Depression and War. They had seen the Smoot-Hawley Act in America and similar protectionist policies overseas deepen the Depression and contribute to the political upheavals of the 1930s. Fifteen years later, they believed that by reopening world markets they could promote growth and raise living standards; and that, in tandem with a strong and confident security policy, as open markets gave nations greater stakes in stability and prosperity beyond their borders, a fragile peace would strengthen.

The work they began has now continued for over fifty years, and the faith they placed in open markets and the rule of law has been abundantly vindicated. Through eight Rounds of negotiations, and as 112 new members joined the 23 founders of the GATT, we abandoned the closed markets of the Depression era and helped to foster a fifty-year economic boom. America, as the world's largest exporter, benefits perhaps most of all: the efficiency of our industries and the high living standards of our families reflect both the gains we receive from open markets abroad, and the benefits of our own open-market policies at home.

But the development of the trading system has had equally important effects worldwide. As it has developed over the past fifty years, the world economy has grown six-fold; per capita income nearly tripled; and hundreds of millions of families escaped from poverty. And perhaps the best testimony to this success is that many of the new applicants to join the WTO are nations which are abandoning the postwar experiment in communist central planning.

## CHINA'S ROAD: FROM REVOLUTION TO REFORM

And that brings me to China.

With the Communist revolution, China set out upon a very different road than the one President Truman and his colleagues had charted. After 1949, it shut doors it had once opened to the world. Among its new leaders' first steps were to expel foreign businesses from China and bar direct economic contact between Chinese citizens and the outside world. Inside China were similar policies: destruction of private internal trading networks linking Chinese cities and villages, abolition of private property and land ownership, and of course suppression of the right to object to these policies.

In essence, one cannot separate postwar China's deepening isolation from the outside world from its steadily increasing internal repression and diminishing space for individual life and freedom. Likewise, China's economic isolation had severe consequences for regional peace and stability: Asia's largest nation had little stake in prosperity and stability -- in fact, saw advantage in warfare and revolution -- beyond its borders. Every Pacific nation felt the consequences not only in economics and trade but in peace and security.

China's domestic reforms since 1978 have helped to undo this isolation, integrating China into the Pacific regional economy as they opened opportunities for Chinese at home. The results have been profoundly positive: as China's people regained the right to farm their own land, open businesses and choose their own places of employment, they have found new opportunities both to raise their living standards and determine their own futures. At the same time, China has moved gradually from a revolutionary role in the region to a willingness to play a positive and stabilizing role on issues as various as the maintenance of peace on the Korean peninsula and the Asian financial crisis.

A bipartisan American trade policy over the past thirty years has contributed to these positive trends. Broadly speaking, our goals have been to support Chinese domestic economic reform, integrate China into the Pacific regional economy, through a variety of means including commercially meaningful agreements that open opportunities for Americas. This has extended from the lifting of the trade embargo in 1972, to our Bilateral Commercial Agreement in 1980, trade agreements in the 1980s; and to a series of more recent agreements including:

- Intellectual Property – In the early 1990's, China's failure to protect intellectual property rights was one of the most problematic aspects in our trading relationship. Piracy of films, software, CDs, and other intellectual property works cost our industry hundreds of millions of dollars and led to trade confrontations with China, including invocation of sanctions on two occasions. The United States ultimately negotiated agreements in 1992 and 1995, and then won further commitments in 1996 that led China to pass world-class copyright, patent and trademark laws; close the vast majority of pirate production facilities; cease the export of pirated products and significantly improve enforcement – the principal focus of the agreements.
- Textiles – Likewise, textile transshipment and market access barriers have historically been a problem in our textile trade relationship with China. While problems remain, two separate agreements, in 1994 and 1997, combined with sustained enforcement efforts by the U.S. Customs Service and the Administration, as well as imposition of triple charge penalties, have helped to mitigate these problems. The 1997 agreement, in fact, committed China for the first time to significantly reduce its textile import restrictions.
- Agriculture – Most recently, our Agreement on Agricultural Cooperation in April of 1999 lifted long-standing bans on exports of American citrus, meats and Pacific Northwest wheat, imposed due to unscientific sanitary and phytosanitary measures. As in the cases

of intellectual property and textiles, we are holding frequent consultations with the Chinese authorities charged with implementing the agreement.

Taken as a whole, this work has helped to open the Chinese economy; created a series of new opportunities for Americans; and given the Chinese public a much broader array of contacts with the outside world than at any time since the late 1940s. But the work is only partly done. China's trade barriers remain very high; a number of policies dating from the 1950s are still unchanged; and China's integration with the world economy remains insecure. Likewise, China's neighbors remain blocked from an economy which -- like Japan's -- could be an engine of growth. One index of this is our substantial trade deficit with China. Another is that since we extended Normal Trade Relations (formerly MFN status) to China in 1980, our exports to China have grown by only \$10 billion, a figure significantly less than our total growth to most other major trading partners in Europe, North America and East Asia.

WTO accession thus represents a potentially profound and historic shift, building upon but going much further than China's domestic reforms to date. As it joins the WTO, China will do much more than reduce trade barriers at the border. For the first time since the 1940s, it will:

- Permit foreigners and Chinese businesses to import and freely into China;
- Reduce, and in some cases remove entirely, state control over internal distribution of goods and the provision of services;
- Enable foreign businesses to participate in information industries such as telecommunications including the Internet; and
- Subject its decisions in all areas covered by the WTO to enforcement, including through formal dispute settlement when necessary.

These commitments are a remarkable victory for economic reformers in China. China's domestic reforms have moved away from a number of policies from the era of the Cultural Revolution and Great Leap Forward. Its WTO accession will go further, helping to reform policies dating to the earliest years of the communist era: absolute government control over economic contact with foreigners, nationalization of major industries, and destruction of private local commerce within China.

Altogether, this will give China's people more access to information, and weaken the ability of hardliners in government to isolate China's public from outside influences and ideas. More deeply, it reflects a judgment -- although one still not universally shared within China or its leadership -- that prosperity, security and international respect will not come from the static nationalism, state power and state control over the economy China adopted after the war. Rather, China is more likely to gain these from the greater integration with the world, rising economic freedom at home, and ultimately development of the rule of law inherent in the initiative President Truman began in 1948 with the founding of the GATT.

The WTO accession, therefore, has potential beyond economics and trade: as a means to advance the rule of law in China, and a precedent for willingness to accept international standards of behavior in other fields. That is why many Hong Kong and Chinese activists for democracy and human rights – Martin Lee, the leader of Hong Kong’s Democratic Party; Ren Wanding, a dissident who has spent years of his life in prison – see WTO accession as China’s most important step toward reform in twenty years. And it is why our support for WTO accession rests on a broader long-term commitment to human rights and freedoms, as well as new opportunities and strengthened guarantees of fairness for Americans.

## WTO ACCESSION AND AMERICAN TRADE INTERESTS

It also, of course, represents the achievement of specific American economic interests. While China’s principal concern is the potential of WTO accession to create jobs and foster sustainable growth through economic reform, we have sought commercially meaningful and enforceable commitments that help Americans on the farm and on the job export to China, by addressing the many layers of trade barriers and policies which limit access.

The bilateral WTO agreement builds upon and consolidates reforms obtained in all our previous negotiations, and reflects our experience with the enforcement of those agreements. Clearly, to win its full benefits we must be vigilant in monitoring and enforcing compliance. And the bilateral agreement gives us all the tools necessary to do so. Thus, in all respects, this bilateral agreement meets the high standards President Clinton set years ago.

### 1. Overview

First, our bilateral agreement is comprehensive. It will reduce Chinese trade barriers across the range of goods, services and agricultural products; eliminate or sharply reduce restrictions on freedom to import and distribute goods within China; address industrial policies intended to draw jobs and technology to China; and strengthen our guarantees of fair trade practices. All these reflect the ideas, advice and guidance we have received over years of negotiations from Members of the Committee and Congress as a whole.

Second, it is fully enforceable. China’s commitments in all areas are specific and include timetables and final dates for full implementation. These commitments are enforceable through our trade laws, WTO dispute settlement and other special mechanisms including periodic multilateral review of China’s implementation and compliance. These will, of course, require vigilance and constant commitment to enforcement by the United States as well as by China’s other trading partners in the WTO. We are committed to vigorous monitoring and enforcement, and are already preparing for this through a number of different means: for example, the President’s budget this year requests a tripling of the Commerce Department’s budget for China trade enforcement, and an additional full-time China officer at USTR.

And third, its results will be rapid. On accession to the WTO, China will begin opening its market from day one in virtually every sector. The phase-in of further concessions will be limited

to five years in almost all cases, and in many cases one to three years.

Let me now offer some of the details in each major sector.

## 2. Industry

In industrial goods, China will cut tariffs from an average of 24.6% in 1997 to 9.4% by 2005 and bind them at these new, lower levels. It will eliminate quotas and other numerical restrictions. And it will allow American firms to import and distribute their products freely in China. This is essential, as American companies, farmers and workers need the ability to import, export and distribute goods in China to compete effectively -- rights currently denied but which will be permitted under the agreement, allowing our businesses to export to China from here at home, and to have their own distribution networks in China, rather than being forced to set up factories there to sell products through Chinese partners. Some highlights include:

Trading Rights – China will grant American companies, over a three-year phase-in period, rights to import and export most products without Chinese middlemen. Currently, the right to engage in trade (importing and exporting) is strictly limited; only companies that receive specific authorization or who import goods to be used in production have such rights. This limits not only the ability of U.S. companies to do business in China, but in particular has limited U.S. exports.

Distribution – As in the case of trading rights, the right to distribute products is critical to our ability to export successfully to China. After accession, China will allow American firms to market, wholesale, retail, repair and transport their products -- whether produced in China or imported. At present, China generally prohibits companies from distributing imported products or providing related distribution services such as repair and maintenance services. China will permit enterprises to engage in the full range of distribution services over a three-year phase-in period for almost all products.

Tariffs – China will make substantial tariff cuts on accession with further cuts phased in, two thirds of which will be completed in three years and almost all of which will be completed within five years. On U.S. priority industrial items, tariffs will drop on average to 7.1% -- a figure comparable to those of most major U.S. trading partners. As in agriculture, China will bind tariffs at these low levels. Some specific examples include:

Information Technology Agreement – China will participate in the Information Technology Agreement (ITA), eliminating all tariffs on such information technology products as semiconductors, telecommunications equipment, computer and computer equipment and other items by 2003 in most cases and 2005 in a few others.

Autos – China will reduce tariffs on autos from rates of 80%-100% today to 25% in 2006, and on auto parts to an average of 10% from an average of over 23%.

Wood and Paper Products – China will reduce high tariffs on wood and paper to levels

generally between 5% and 7.5%. As noted below, China will also implement any sectoral APEC Accelerated Tariff Liberalization initiative adopted by the WTO in this sector.

Chemicals – China will commit to the vast bulk of chemical harmonizations, reducing tariffs from present rates between 10%-35% to an average rate of 6.9%. These reductions include reductions on all priority U.S. chemical exports.

Furniture – China will reduce its current average tariff rate of 22% to 0% on all furniture items covered by the Uruguay Round sectoral initiative, by 2005.

Accelerated Tariff Liberalization -- China has agreed to implement the Accelerated Tariff Liberalization initiative of APEC now under consideration in the WTO, when consensus is achieved. This would eliminate tariffs on forest products, environmental goods and services, energy and energy equipment, fish, toys, gems and jewelry, medical equipment and scientific instruments, and also includes chemical harmonization.

Non-Tariff Barriers – China will eliminate all quotas and other quantitative measures upon accession for top U.S. priorities including certain fertilizers and fiber-optic cable by 2002, and by 2005 in all cases.

### 3. Agriculture

In agriculture, China will make substantial reductions in tariffs both on accession to the WTO and over time. It will adopt tariff-rate quotas that provide significant market access for bulk commodities of special importance to American farmers. It will agree to apply science-based sanitary and phytosanitary standards including in grains, meats and fruits. And it will eliminate export subsidies. Notable achievements here include:

Tariffs – China's agricultural tariffs will fall from 31% to 14% for our priority items. All cuts occur over a maximum of four years, and will be bound at the applied levels. To cite a few examples:

|               | Current Level | Under the Agreement |
|---------------|---------------|---------------------|
| <u>Beef</u>   | 45%           | 12%                 |
| <u>Citrus</u> | 40%           | 12%                 |
| <u>Apples</u> | 30%           | 10%                 |
| <u>Cheese</u> | 50%           | 12%                 |
| <u>Wine</u>   | 65%           | 20%                 |
| <u>Beer</u>   | 70%           | 0%                  |

TRQs – China will liberalize its purchase of bulk agricultural commodities like wheat, corn, rice,

cotton and so on, through tariff-rate quotas – that is, very low tariffs (1% for bulk commodities) on a set volume of commodities. We include in this portion of the agreement provisions to maximize the likelihood that these TRQs are filled. In particular, a portion of each TRQ is reserved for importation through private traders, and TRQs which have not been filled will be redistributed to other end-users with an interest in importing on a first-come, first-served basis. Some salient examples include:

|                   | <u>1998 Total Imports</u> | <u>Initial TRQ</u> | <u>2004 TRQ</u> | <u>Private Share</u> |
|-------------------|---------------------------|--------------------|-----------------|----------------------|
| <u>Cotton</u>     | 200,000 mt                | 743,000 mt         | 894,000 mt      | 67%                  |
| <u>Wheat</u>      | 2,000,000 mt              | 7,300,000 mt       | 9,636,000 mt    | 10%                  |
| <u>Corn</u>       | 250,000 mt                | 4,500,000 mt       | 7,200,000 mt    | 25%, grows to 40%    |
| <u>Rice</u> total | 250,000 mt                | 2,660,000 mt       | 5,320,000 mt    | ----                 |
| short/med grain   |                           | 1,330,000 mt       | 2,660,000 mt    | 50%                  |
| long grain        |                           | 1,330,000 mt       | 2,660,000 mt    | 10%                  |

Export Subsidies – China will eliminate agricultural export subsidies. This is an important achievement in its own right, and a step toward our goal of totally eliminating export subsidies worldwide.

Domestic Support – China has committed to cap and reduce trade-distorting domestic subsidies. China also committed to provide greater transparency to make its domestic support measures more predictable.

Sanitary & Phytosanitary Standards – China will agree to apply sanitary and phytosanitary standards based on science. Among other things, this will give us additional means of enforcing the Agreement on Agricultural Cooperation and its commitment to lift longstanding bans on American meats, citrus fruit and Pacific Northwest wheat.

#### 4. Services

In services, China will open markets across the spectrum of distribution services, financial services, telecommunications, professional, business and computer services, motion pictures, environmental services, and other industries.

Grandfathering – China will protect the existing activities and market access of all service providers operating in China at the time of accession.

Distribution – As noted above, China now generally prohibits firms from distributing products



other than those they make in China, or from controlling their own distribution networks. Under the Agreement China has agreed to liberalize wholesaling and retailing services for most products, including imported goods, throughout China within three years. This will remove all restrictions on wholesaling, retailing, maintenance and repair, marketing, customer service and transportation, along with restrictions on auxiliary services including trucking and air express delivery, air courier, rental and leasing, storage and warehousing, advertising and others. This is of immense importance in its own right and as a step that will enable our exporters to do business more easily in China.

Insurance – Currently only two U.S. insurers are operating in China's market. With WTO accession, China agrees to award licenses solely on the basis of prudential criteria, with no economic-needs test or quantitative limits on the number of licenses issued; progressively eliminate geographic limitations within three years, and permit internal branching consistent with the elimination of these restrictions; over five years expand the scope of activities for foreign insurers to include group, health and pension lines of insurance. For non-life insurance, branch and joint-ventures at 51 percent equity share are permitted on accession, and wholly-owned subsidiary permitted within two years from date of accession. For life insurance, joint ventures are permitted with the partner of choice at 50 percent equity share upon accession.

Banking – Currently foreign banks are not permitted to do local currency business with Chinese clients, and only a few can engage in local currency business with their foreign clients. China also imposes severe geographic restrictions on the establishment of foreign banks. With this agreement, China commits to full market access in five years for U.S. banks. China will allow internal branching and provide national treatment for all newly permitted activities. It will also allow auto financing on accession, and allow local currency business with Chinese enterprises starting two years after accession, and allow local currency business with Chinese individuals from five years after accession. Both geographic and customer restrictions will be removed in five years.

Securities – China will permit minority foreign owned joint ventures to engage in fund management on the same terms as Chinese firms. Minority joint ventures will be allowed to underwrite domestic equity issues and underwrite and trade other securities (debt and equity). As the scope of business expands for Chinese firms, foreign joint venture securities companies will enjoy the same expansion in scope of business. China has also agreed to hold regular consultations with the U.S. Treasury Department under the auspices of our Joint Economic Commission with China. The purpose of this is to exchange information and assist the development of China's financial and capital market.

Telecommunications – China now prohibits foreign investment in telecommunications. With WTO accession, it will join the Basic Telecommunications Agreement, implementing regulatory principles including interconnection rights and regulatory rules. It will end geographic restrictions for paging and value-added services within two years, mobile and cellular within five years, and domestic wireline and closed user groups in six. It will also end its ban on foreign direct investment in telecommunications services, allowing 49% foreign investment in all services and

50% foreign ownership for value added and paging services in two years.

Audiovisual – China does not now allow foreign participation in distribution of sound recordings. Under the agreement, China will allow 49% foreign equity for the distribution of video and sound recordings, majority ownership in three years for construction and ownership and operation of cinemas. China has also agreed to allow the importation of 20 films per year on a revenue-sharing basis.

Other – Also covered is a broad range of other services – architecture, engineering, accounting, legal, travel and tourism, computer and business services, environmental services, franchising, express delivery and many more. In each, China has made specific, enforceable commitments that open markets and offer competitive American industries important new opportunities.

## 5. Protocol Issues

Finally, our bilateral agreement deals, appropriately, with the special and unusual characteristics of the Chinese economy. These include the high degree of state participation in the Chinese economy; a series of industrial policy measures intended to draw jobs and technology from the U.S. and other trading partners to China, such as local content, offset and export performance requirements as well as forced technology transfer; and special measures to address import surges from China and unfair export practices like dumping.

Altogether, no agreement on WTO accession has ever contained stronger measures to strengthen guarantees of fair trade and to address practices that distort trade and investment. China's major commitments in this regard include:

Import Surge Protection – China agrees to a twelve-year product-specific safeguard provision, which ensures that the U.S. can take effective action in case of increased imports from China which cause market disruption in the United States. This applies to all industries, permits us to act based on the lowest showing of injury, and act specifically against imports from China.

Non-Market Economy Dumping Methodology – China's WTO entry will guarantee our right to continue using our current "non-market economy" methodology in anti-dumping cases for fifteen years after China's accession to the WTO.

Subsidies – Likewise, when we apply our countervailing duty law to China, we will be able to take the special characteristics of China's economy into account. Specifically, where government benefits are provided to an industry sector and state-owned enterprises are the predominant recipients or receive a disproportionate share of those benefits, the United States could take action under our unfair trade laws. The agreement also establishes that the U.S. can determine whether government benefits, such as equity infusions or soft loans, have been provided to an industry using market-based criteria rather than Chinese government benchmarks.

Investment Reforms – China will reform a large number of policies intended to draw jobs and

technology away from China's trading partners. It will, for example, implement the WTO's Agreement on Trade-Related Investment Measures agreement on accession; eliminate mandated offsets, local content and export performance requirements and refuse to enforce contracts containing these requirements; and not condition investment licenses on performance requirements of any kind. All of this will make it significantly easier for Americans to export to China from home, rather than seeing companies forced to set up in China in order to sell products there.

Technology Transfer – China will abolish requirements for technology transfer for U.S. companies to export or invest in China. This will better protect our competitiveness and the results of U.S. research and development.

State-Owned and State-Invested Companies – China commits that state trading companies and state-invested enterprises will make purchases and sales solely on commercial terms, specify that purchases by these companies are not government procurements and thus are not subject to any special or different rules that could undercut the basic commitment, and provide U.S. firms the opportunity to compete for sales and purchases on non-discriminatory terms and conditions.

Textiles – Under our agreement, quotas will remain in effect for Chinese textiles as for those of other WTO members until 2005. From then until January of 2009, we will have a special safeguard enabling us to address market-disrupting import surges from China in the textile sector. This is in addition to the broader product-specific safeguard noted above.

## CASE STUDY: THE AUTO INDUSTRY

To illustrate more clearly the cumulative effect of these commitments, let me offer a case study of the present situation and the changes WTO accession will make for the automobile industry.

At present, a combination of trade barriers and industrial policies adopted to draw auto investment to China makes it virtually impossible to export cars to China. Typically, we export about 600 cars a year to China, many of them used; last year, the figure was likely below 400. This is far less than a single average U.S. auto dealership sells in a year, and fewer than the 688 motorized golf-carts we sold to China from January to November 1999. Our bilateral agreement addresses the policies which have limited our export capability as follows:

- We reduce barriers at the border: cutting tariffs from 80-100% today to 25% in 2006; forbidding discriminatory value-added taxes; and raising the current virtually prohibitive quota to \$6 billion worth of autos and then eliminating it entirely within five years.
- We commit China to open its distribution markets and grant trading rights, ensuring that firms and dealerships in China can import autos directly from the United States, and that Americans can move their products freely within China to the areas of greatest demand.

- We open up services essential to auto sales: China will let auto firms provide financing, set up dealerships, advertise their products, provide repair and maintenance, and import parts.
- We abolish certain industrial policies intended to draw auto jobs, investment and technology to China: China will abandon requirements that require firms to set up factories in China in order to sell in China, and abolish local purchase requirements and forced technology transfer.
- We strengthen our guarantees that auto production and jobs in the United States will be secure. On the import side, we include in the agreement a “product-specific safeguard” available to all industries for 12 years -- in this case, a guarantee that if auto imports from China should rise so as to cause market disruption, we can impose emergency limits; and a guarantee we will be able to employ special “non-market economy” methods of calculating and counteracting dumping for fifteen years.
- And we have enforcement mechanisms for all of these separate and overlapping commitments. This includes our own American trade laws and the WTO’s dispute settlement mechanism.

Thus, we in essence have a comprehensive agreement on automobile trade; and we match it, although specific features differ, in every industry of significant concern to the U.S. economy.

## ENFORCEMENT

Of course, trade commitments require full implementation and enforcement to be meaningful in practice. Our previous successes in improving intellectual property rights and enforcing textile commitments demonstrate how crucial constant oversight, monitoring, and strict enforcement are in the case of China, and our trading partners in general. And with China’s WTO membership, we will gain a number of advantages in enforcement we do not now enjoy.

First is the WTO dispute mechanism itself. In no previous agreement has China agreed to subject its decisions to impartial review, judgment and ultimately imposition of sanctions if necessary.

Second, of course, is our continued right to use the full range of American trade laws, including Section 301, Special 301, and our countervailing duty and anti-dumping laws.

Third, we gain substantial new leverage by creating the product-specific safeguard, as well as guaranteeing our right to use non-market economy antidumping methodologies. These features of the accession will significantly strengthen our ability to ensure fair trading practices.

Fourth, and very significant, we strengthen our enforcement capabilities through the multilateral nature of the WTO. The accession, to begin with, will create a multilateral review

mechanism to monitor all of China's implementation closely. And as these commitments come into effect, China will be subject to enforcement by all 135 WTO members, significantly diminishing China's ability to play its trading partners off against one another. In all previous disputes over Chinese compliance with agreements, notably those over intellectual property, the United States had to act alone. With China in the WTO, we will be able to work with 134 other members, many of whom will be concerned about the same issues we raise and all of whom will have the legal right to enforce China's commitments.

Fifth, the specificity of China's commitments in this bilateral agreement will help us ensure that China complies. Experience shows that agreements with China are enforced most satisfactorily when obligations are concrete, specific, and open to monitoring. Our bilateral agreement therefore includes highly specific commitments in all areas, clear time-tables for implementation, and firm end-dates for full compliance. These allow us carefully to monitor China's compliance and present clear evidence of failure to comply.

Finally, however, enforcement as in any agreement depends on U.S. commitment. We are already preparing for the monitoring and enforcement effort this will require through President Clinton's request for new enforcement and compliance resources at the USTR, the Commerce Department, USDA and other branches of government with enforcement responsibilities. The President is requesting resources for the largest monitoring and enforcement effort for any agreement ever, covering China's obligations in the WTO and also import administration issues such as dumping and countervailing duties.

## NEXT STEPS

As comprehensive as this bilateral agreement is, China's work to join the WTO is not yet done.

First, it must reach bilateral market access agreements with other WTO members. While it has finished such agreements with approximately 15 WTO members including Japan, Brazil, Canada and other major trading partners, it must still complete talks with the EU, India, Mexico and others. China must also complete a multilateral negotiation at the WTO, principally covering commitments on a range of WTO rules. Each of these steps is proceeding, and upon completion, should strengthen the already very strong accession agreement we negotiated.

## PERMANENT NORMAL TRADE RELATIONS

By contrast to this comprehensive set of enforceable one-way concessions on China's part, the U.S. commitment is merely to continue our present policies. Thus, the U.S.:

- Makes no changes in our current market access policies.
- Preserves our right to withdraw market access for China in the event of a national security emergency.
- Requires no changes in our laws controlling the export of sensitive technology.

– Amends none of our fair trade laws.

But we do have one obligation: we must grant China permanent NTR or risk losing the full benefits of the agreement we negotiated, including broad market access, special import protections, and rights to enforce China's commitments through WTO dispute settlement.

This is, in terms of our policy toward China, no real change. NTR is simply the tariff status we have given China since normalization of diplomatic relations in 1979; which Congress has reviewed every year since, and found to be in our fundamental national interest. Thus permanent NTR represents little real change in practice. But the legislative grant of permanent NTR is critical. All WTO members, including ourselves, pledge to give one another permanent NTR to enjoy the benefits available in one another's markets. If Congress were to refuse to grant permanent NTR, our Asian, Latin, Canadian and European competitors will reap these benefits but American farmers and businesses may well be left behind.

## WTO ACCESSION AND AMERICAN STRATEGIC INTERESTS

From the perspective of trade policy, then, this choice is absolutely clear. China offers a set of one-way, enforceable trade concessions. In return, we are asked only to confirm the normal trade status we already grant to China; and if we do not, we run a substantial risk of permanently disadvantaging hundreds of American industries and their American workers.

From the perspective of reform and liberalization in China, the choice is equally clear. As it implements these commitments, China will become a country which is more open to the world, whose people enjoy more choices in daily life and more contacts with the outside world, and whose government in a number of important fields is more responsive to the rule of law than it is today.

But we must also look to a still deeper issue. China is the world's largest country, and over the past decade the world's fastest-growing major economy. The future course of our relationship will have great bearing on American security and strategy in the 21<sup>st</sup> century, and in this regard WTO accession offers us a great deal.

Our relationship with China today is free neither of deep-seated policy disagreements nor moments of tension. These are perhaps natural: we are great Pacific powers, and our governments reflect vastly different political systems and values. Such a relationship, however, poses profound questions for future peace and stability across much of the earth.

We should not, of course, imagine that a trade agreement will cure all our disagreements. Rather, as the President has said, when we disagree with China we must act with candor and a firm assertion of our interests and values. But as we do so, we must also recognize how important a stable and peaceful relationship with China is -- for the world, the Chinese, and ourselves. And thus we have a fundamental responsibility to find and act upon areas of shared interest and benefit.

We saw this responsibility clearly, and acted upon it, in the Asian financial crisis two years ago. We see it in the maintenance of peace on the Korean peninsula; the search for stability in the Taiwan Strait; the environmental problems of the Asia-Pacific. And we have seen it in trade for over a quarter century.

American trade initiatives in China stretch from the end of the trade embargo in 1972 through our Commercial Agreement; the renewal of NTR for the past 20 years; more specific trade agreements in the 1980s; our support for China's participation in APEC; and the market access, textile and intellectual property rights agreements of the 1990s. Each step had a foundation in concrete American interests; but each also helped to promote reform and the rule of law within China, integrate China in the Pacific economy, and strengthen China's stake in prosperity and stability throughout Asia.

As such, together with our network of alliances and military commitments, trade policy has helped to strengthen guarantees of peace and security for us and for the world. And China's WTO accession will be the most significant step in this process for many years.

## CONCLUSION

That is the fundamental meaning of this WTO accession.

It will create a new and fundamentally reformed trade relationship with the world's fastest-growing major economy, which offers practical, concrete benefits to cities and rural areas throughout America: stronger guarantees of fairness for our working people, farmers and businesses; new export opportunities that mean jobs and growth for Americans.

It will promote deeper and swifter reform within China, strengthening the rule of law and offering new opportunities and hope for a better life to hundreds of millions of Chinese.

And it will offer the prospect of a relationship with the world's largest nation which may have moments of tension and volatility, but in which we also act to find common ground and strengthen hopes for peace.

That is the opportunity before us; and it is one our country must not miss. I thus ask for the Committee's support as we seek permanent normal trade relations with China and its accession to the World Trade Organization.

Thank you, Mr. Chairman and Members of the Committee.